

<p align="center">STATE OF MONTANA</p> <p align="center">COMPLIANCE SUPPLEMENT FOR AUDITS OF</p> <p align="center">LOCAL GOVERNMENT ENTITIES</p>	REF: AUD-1
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PROGRAM/SUBJECT: Insurance Premium Tax Apportionment	

TYPES OF RECIPIENTS: Third-Class Cities, Towns and Fire Department Relief Associations

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I. PROGRAM OBJECTIVES:

To provide funds for the benefit of city or town fire department relief associations (fire department pension funds); and police pension funds. For those cities and towns that do not maintain a police pension fund, funds are made available for police department employee training, for equipment and personnel relating to substance abuse enforcement, or to purchase pensions for police department employees.

II. PROGRAM PROCEDURES:

The State Auditor's Office issues a warrant to the treasurer of every third-class city or town that has a fire department relief association which is entitled by law to receive payments. The payment is in an amount equal to 1 ½ mills of the total taxable value of the city or town. The minimum payment is \$100.

The State Auditor's Office also issues a warrant to each city and town that has a police department and is not a participant in the municipal police officers' retirement system (MPORS). This payment is the same as the above payment for the fire department relief association.

Both payments are paid out of the premium taxes on insurance risks specified in MCA 19-18-512 that are collected by the State Auditor.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

1. Compliance Requirement:

- Insurance premium tax payments from the State Auditor to a city or town for the fire department relief association must be deposited in the city or town fire department relief association fund, and remitted to the association if the association maintains its own funds separately from the city or town treasury. These payments are received from the State Auditor once annually, at fiscal-year end. (MCA 19-18-501, 19-18-512, 19-18-105, and 19-18-106)

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III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

Suggested Audit Procedure:

- Test receipts of insurance premium tax apportionment moneys received for fire department relief association purposes to determine if the money was deposited to the city or town fire department relief association fund, and remitted to the association if the association maintains its own funds separately from the city or town treasury.

2. Compliance Requirement:

- If the city or town has a police retirement fund, the insurance premium tax apportionment moneys received for police retirement must be deposited in the city or town police retirement (police reserve) fund and used for police retirement. (MCA 19-19-305)

Suggested Audit Procedure:

- Test receipts of insurance premium tax apportionment moneys received for police retirement purposes to determine if the money was deposited in the police retirement fund.

3. Compliance Requirements:

- If the city or town does not have a police department retirement fund, the insurance premium tax apportionment moneys received for police retirement must be spent for police department employee training, for equipment and personnel relating to substance abuse enforcement, or to purchase pensions for employees of its police department. (MCA 7-32-4120)
- Cities or towns that have consolidated their police departments with county law enforcement offices may not use these funds to pay the county for their share of the consolidated law enforcement expense unless those funds are used exclusively for pensions and/or training. (AGO #117, Vol. 37 (1978))

Suggested Audit Procedures:

- Test receipts of insurance premium tax apportionment moneys received for police purposes to determine if the money was deposited to a city or town fund from which payments for the above purposes are made.
- If insurance premium tax apportionment funds received are specifically identified (i.e. separate fund, subaccount within fund, etc), test disbursements to determine if the funds were used for police department employee training, for equipment and personnel relating to substance abuse enforcement, or to purchase pensions for employees of its police department.

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III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

Suggested Audit Procedures - continued:

- If insurance premium tax apportionment funds received are not specifically identified (i.e., deposited to general fund), determine that total expenditures from that fund for police department employee training, for equipment and personnel relating to substance abuse enforcement, or for the purchase of pensions for employees of its police department are at least equal to the amount received that year from insurance premium tax apportionment funds. If total expenditures for those purposes are not at least equal to the amount received, determine that the city or town has identified or earmarked any remaining balance for those allowable purposes and has a system to ensure that the funds will be used for allowable purposes in future years.

4. Compliance Requirement:

- The secretary and treasurer of the fire department relief association shall annually, within 6 months after the close of the fiscal year, prepare an annual financial report for the preceding fiscal year and file report copies with the association, the State Auditor, and the Department of Administration (Local Government Services). The State Auditor may not make the insurance premium tax apportionment payment to the city or town until the report is filed. (MCA 19-18-205 & 2-7-503)

Suggested Audit Procedure:

- If a city or town has not received an anticipated insurance premium tax apportionment for the fire department relief association, determine whether the required annual financial report has been filed. (The Department of Administration routinely notifies entities who are delinquent on their annual financial reports and attempts to obtain the required copies. If an entity receives its insurance premium tax apportionment payment, the auditor can assume the annual financial report was filed with the State as required.)

5. Compliance Requirement:

- A city or town not having a police retirement fund shall, on or before April 1 of each year, report to the State Auditor as to the expenditures of all insurance premium tax apportionment funds received by the city or town for the police purposes. (MCA 7-32-4120)

Suggested Audit Procedure:

- Verify that the required expenditure report has been filed and review the report for accuracy.

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III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

6. Compliance Requirement:

- When a city or town no longer employs a police officer eligible to receive benefits paid from the city's or town's police retirement fund and when there are no retired officers or beneficiaries eligible to receive benefits from the fund, the city or town shall dissolve the fund and pay the State Auditor an amount proportional to the prior contributions made by the State, as determined by the State Auditor. Any remaining money must be transferred to the city or town general fund and used for any authorized purpose. (MCA 19-19-202)

Suggested Audit Procedures:

- If a city or town has a police retirement fund, determine whether there are police officers or retired officers or beneficiaries eligible to receive benefits from the fund. If there are not, an audit recommendation should be made to close the fund as required by State law.
- If a city or town police retirement fund was closed during the audit period, test the disbursement made to the State Auditor to determine that the State was paid an amount proportional to the prior contributions, and that the balance was transferred to the city or town general fund.